

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
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USIA-06 AID-05 EB-08 TRSE-00 STR-06 OMB-01 CEA-01
COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 ABF-01
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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 4302

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TAGS: EFIN, EG

SUBJ: IBRD MISSION REVIEWS GOE ECONOMIC POSITION

1. SUMMARY: IBRD IS TAKING UPBEAT NOTE ON GOE ECONOMIC PERFORMANCE IN 1977. OF KEY IMPORT IS IMPROVED FOREIGN EXCHANGE AVAILABILITY WHICH RESULTS FROM CAREFUL APPLICATION OF GODE MONEY TO OUTSTANDING ARREARS AND CURRENT SHORT-TERM OBLIGATIONS. IBRD OFFICIAL IKRAM, IN CONVERSATION JANUARY 13, EXPRESSED BELIEF GOE IS IN RELATIVELY STRONG POSITION FOR 1978. ONLY MAJOR SHADOW IN COMPARATIVELY BRIGHT PICTURE FROM IBRD'S PERSPECTIVE IS FAILURE OF GOE TO TAKE HARD ECONOMIC DECISIONS ON DOMESTIC FRONT. IBRD BELIEVES GOE THUS WILL NOT SUCCEED IN MOBILIZING DOMESTIC RESOURCES TO EXTENT REQUIRED TO SUSTAIN PLANNED INVESTMENT FOR CURRENT YEAR OR MEDIUM TERM FUTURE. PROGNOSIS IS FOR CONTINUING CASH/PROJECT INFLOWS TO SUSTAIN ECONOMIC GROWTH. END SUMMARY.

2. IBRD MISSION CHIEF KHALID IKRAM BRIEFED EMBOFFS JANUARY 13 ON PRESENT IBRD PERSPECTIVE OF GOE ECONOMIC SITUATION. IN ONE YEAR'S TIME, IKRAM NOTED, GOE'S
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FINANCIAL PICTURE HAS IMPROVED SUBSTANTIALLY, PARTICULARLY ON FOREIGN EXCHANGE ACCOUNTS. COMMENTING ON BANK'S RECENT ASSESSMENT OF UNDISBURSED ASSISTANCE IN PIPELINE, IBRD HAS CALCULATED THAT \$2.5 BILLION REMAIN UNSPENT ON PROJECT ACCOUNT, \$350 MILLION OF COMMODITY ASSISTANCE IS AVAILABLE AND \$450 MILLION REMAINS FROM GODE'S SECOND TRANCHE. ON CASH/IMPORT COVERAGE SIDE ALONE BANK IS FAIRLY CONFIDENT

GOE COULD REMAIN CURRENT THROUGHOUT 1978 THOUGH GOVERNMENT WOULD BE FORCED TO RESORT TO COMMERCIAL BANKING FACILITIES FOR IMPORT FINANCING IN LATTER HALF OF YEAR IF NO FURTHER COMMODITY/CASH ASSISTANCE IS FORTHCOMING. PRIORITY NEED NOW, ACCORDING IKRAM, IS TO DETERMINE FUTURE ASSISTANCE PROFILE FOR EGYPT. BANK SEES THIS AS PRINCIPAL OBJECTIVE OF CONSULTATIVE GROUP MEETING NOW TENTATIVELY SCHEDULED FOR JUNE 14 AND 15, IN PARIS.

3. IKRAM SAID MORGAN STANLEY OFFICIALS MET RECENTLY IN NEW YORK WITH IBRD AND OUTLINED PAYMENTS PROCEDURE DEVELOPED BY MORGAN STANLEY FOR DISBURSEMENT OF GODE SECOND TRANCHE. GODE HAS OPENED ACCOUNT WITH FEDERAL RESERVE BANK NEW YORK WITH DEPOSIT OF \$100 MILLION. SUPPLEMENTAL FUNDS ARE BEING TRANSFERRED INTO ACCOUNT IN \$50 MILLION SEGMENTS WHENEVER BALANCE FALLS TO \$5 MILLION. AGREEMENT BETWEEN GOE AND GODE PERMITTED \$70 MILLION OF INITIAL SECOND TRANCHE FUNDS TO BE USED TO COVER COMMERCIAL OBLIGATIONS DUE IN DECEMBER 1977. REMAINDER OF GODE SECOND TRANCHE IS TO BE PAID OUT FOR PURCHASES OF SPECIFIED COMMODITIES. WHILE MORGAN STANLEY AND GODE APPEAR SATISFIED WITH ARRANGEMENT, GOE IS NOT, ACCORDING IKRAM. CENTRAL BANK HAS COMPLAINED TO IBRD THAT MECHANISM FOR SUPPLEMENTAL FUNDS' TRANSFER DOES NOT WORK AS SMOOTHLY AS DESCRIPTION SUGGESTS. CENTRAL BANK, WHILE NOT ASSERTING THIS HAS ANY POLITICAL SIGNIFICANCE, BELIEVES GODE IS LIMITED OFFICIAL USE

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HAMPERED BY EXCESSIVE BUREAUCRATIC DELAYS. MORGAN STANLEY HAS EXPRESSED CONCERN ABOUT WHETHER OR NOT GODE DONORS ARE ACTUALLY INTERESTED IN 1978 REPLENISHMENT, IN WHICH CONNECTION VP DEBS PLANS TRIP TO AREA IN LATE JANUARY - EARLY FEBRUARY FOR DISCUSSIONS WITH BOTH GOE AND DONOR REPRESENTATIVES.

4. IBRD REP NOTED THAT GODE ASSISTANCE PLUS OTHER DONOR FUNDS, ADDITIONAL MONIES FROM \$250 MILLION CHASE-SYNDICATED LOAN AND \$200 MILLION ISSUE OF EGYPTIAN DEVELOPMENT BONDS WERE ALL FACTORS IN EGYPT'S IMPROVED FOREIGN EXCHANGE POSITION. IKRAM CONFIRMED THAT KAISOUNI PLANS \$500 MILLION DEVELOPMENT BOND ISSUE IN 1978. FOUR NATIONAL BANKS, EGYPTIANS ABROAD AND FOREIGN BANKS OPERATING IN EGYPT ARE EXPECTED TO BE PRINCIPAL PURCHASERS OF ISSUE. KAISOUNI'S EFFORT TO IMPROVE GOE'S FINANCIAL CREDIBILITY HAS RESULTED IN GREATER INVESTOR CONFIDENCE, IKRAM POINTED OUT; RECENT CENTRAL BANK BORROWING OF \$100 MILLION FOR COTTON FINANCING RESULTED IN OFFERS NO HIGHER THAN 3/4 PERCENT OVER LIBR AND DEAL WAS FINALLY CLOSED AT ONLY 5/8 PERCENT ABOVE LIBR FOR SHORT-TERM MONEY.

5. ON 1978 BUDGET/PLAN IKRAM EXPRESSED RESERVATIONS AS TO HOW DOMESTIC RESOURCES WILL BE MOBILIZED TO SUPPORT SUCH AN AMBITIOUS PROGRAM. INVESTMENT BUDGET AT OUTSET APPEARS

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ALMOST TWICE THAT OF 1977 PROGRAM, THOUGH IKRAM AGREED MUCH OF THIS INCREASE MIGHT BE ATTRIBUTED TO EXCHANGE RATE DIFFERENCES. SUBSIDIES ARE STILL HIGH AND BANK HAS MADE ROUGH CALCULATION THAT TOTAL INDIRECT AND DIRECT SUBSIDIES IN 1978 BUDGET ARE LE 826 MILLION, CLOSE TO 1977 IBRD ESTIMATE OF LE 837 MILLION. IKRAM SAID THIS ALONE INDICATES GOE ECONOMIC GROUP HAS TAKEN LITTLE ACTION ON DOMESTIC SIDE OF ECONOMY. PRICE DISTORTION STILL EXISTS AND ADMINISTRATION APPEARS POWERLESS TO CHANGE INTERNAL STRUCTURE IN IMMEDIATE FUTURE. AS RESULT OF SUBSIDIES, DOMESTIC CREDIT POLICY, ETC., PROSPECTS FOR MOBILIZING DOMESTIC SAVINGS TO SUPPORT PLANNED INVESTMENT FOR 1978 OR INDEED ENTIRE PERIOD OF FIVE-YEAR PLAN SEEM LIMITED. NOR DOES 1978 DOMESTIC BUDGET DEFICIT OF APPROXIMATELY LE 350 MILLION ENCOURAGE IBRD TO BE MORE POSITIVE ON INTERNAL ECONOMIC CHANGES. EGYPTIANS CONTEND FIGURE IS SUBSTANTIALLY LOWER THAN 1977.

6. IKRAM TOLD US IMF HAS HAD DISCUSSIONS WITH KEY IBRD OFFICIALS ON GOE'S ECONOMIC POLICY CONCERNING WHETHER OR NOT AID DONORS COULD BE INFLUENCED TO USE MORE LEVERAGE ON EGYPTIANS FOR ECONOMIC REFORM PURPOSES. CONSENSUS OF LIMITED OFFICIAL USE

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GROUP WAS THAT GULF DONORS ARE FOLLOWING SAUDI'S LEAD AND REMAINING "ON FENCE" AWAITING OUTCOME OF PEACE INITIATIVES; U.S., WHICH STRONGLY SUPPORTS SADAT'S MOVE, IS BELIEVED NOT READY TO PRESS FOR ECONOMIC REFORM THAT MIGHT OVERTURN POLITICAL APPLECAKE. THEREFORE IMF IS PESSIMISTIC ON ISSUE OF POTENTIAL ECONOMIC REFORMATION FOR IMMEDIATE FUTURE. SHALAN, IMF DIRECTOR FOR EGYPT, REPORTEDLY CONCEDES GOE CANNOT MEET OVERALL STANDBY CEILINGS AT YEAR'S END 1977, THOUGH FIRST THREE QUARTERS' PERFORMANCE WAS RELATIVELY ACCEPTABLE (HERE AGAIN PRIME PROBLEM WAS INTERNAL DEBT CONTROLS). AS RESULT, HOWEVER, IMF DOES NOT BELIEVE IT WILL BE IN POSITION TO JUSTIFY EXTENDED FUND FACILITY (EFF) ON PERFORMANCE GROUNDS. MOREOVER, GIVEN LACK OF MONIES IN IMF SPECIAL ACCOUNTS, ACCORDING IKRAM'S INFORMATION, MOST IMF COULD OFFER IS \$250 MILLION OVER NEXT THREE YEARS. IBRD OBSERVERS DO NOT BELIEVE GOE WOULD UNDERTAKE MAJOR REFORMS FOR THIS LEVEL OF CREDIT ASSISTANCE. IMF'S SHALAN SEES SECOND STANDBY FACILITY OF \$145 MILLION WITH USUAL REVIEW SCHEDULE ON GOE PERFORMANCE AS LIKELY ALTERNATIVE. IMF TEAM IS SCHEDULED TO COME IN MID-FEBRUARY FOR FINAL 1977 STANDBY REVIEW.

7. IN ADDITION TO PRINCIPAL OBJECTIVE OF MISSION, I.E., FINALIZING IBRD'S DRAFT REPORT ON ECONOMY (COPY OF WHICH HE PROVIDED EMBASSY), IKRAM ALSO INVOLVED WITH ADMINISTRATIVE DETAILS FOR IBRD PRESIDENT MCNAMARA'S VISIT JANUARY 18 - 23. WHILE IKRAM HAD FEW DETAILS ON SUBSTANCE OF VISIT, MCNAMARA SCHEDULED TO CALL ON AMBASSADOR EARLY IN PROGRAM. EILTS

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